qualify for prevailing price valuation, sales of a particular service to third parties must encompass greater than 25% of the total quantity of such service sold by an entity. Carriers shall apply this 25% threshold on a service by service basis rather than on a service line basis. See "Exceptions" below;

d. all other services sold by or transferred to a carrier from its affiliate shall be recorded at no more than the lower of fair market value and fully distributed cost. See "Exceptions" below;

e. all other services sold by or transferred from a carrier to its affiliate shall be recorded at no less than the higher of fair market value or fully distributed cost. See "Exceptions" below.

Exceptions:

Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Threshold. Carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the service does not reach or exceed $500,000, the service shall be recorded at fully distributed cost.

f. Fully distributed cost is determined by following the standards contained in 47 C.F.R. section 64.901, Allocation of Costs, of the FCC Rules and Regulations. These rules emphasize direct assignment and cost causation. First, costs are to be directly assigned either to regulated or nonregulated activities to the maximum extent possible. Then, costs which cannot be directly assigned are to be grouped into homogeneous cost pools and allocated in accordance with direct or indirect measures of cost causation. Residual costs which cannot be apportioned on any cost-causative basis will be apportioned using the general allocator. The general allocator is the ratio of all expenses directly assigned or attributed to nonregulated activities, to the total of all (regulated and nonregulated) directly assigned or attributed expenses.

- A BOC and a section 272 affiliate may provide in-house services to one another, except for operating, installation, or maintenance services of switching and transmission facilities prior to March 30, 2004. These in-house services, however, must be provided on an arm's length basis, and must be in writing. (See CC Docket No. 96-149, First Report and Order, para 180; see also WC Docket No. 03-228, Report and Order, para. 8, 12, 16, 24, 31)

- Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure (See CC Docket No. 96-150, Report and Order, para. 124). These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (See CC Docket No. 96-149, First Report and Order, para. 193)

- The separate affiliate must provide a detailed written description of the asset transferred or service provided, together with the specific price, frequency, and the terms and conditions of the transaction on the Internet within 10 days of the transaction through the company's home page. (Note: a transaction is deemed to have occurred once the BOC and its affiliate have agreed upon the terms and conditions of the transaction, not when the service is actually performed or the asset actually sold (See CC Docket No. 96-150, Report and Order, para.124)). The description of the asset or service and the terms and conditions of the transaction should be sufficiently detailed to allow evaluation of compliance with accounting rules. This information must also be made available for public inspection at the principal place of business of the BOC. The information made available at the principal place of business of the BOC must include a certification statement identical to the certification statement currently required to be included with all Automated Reporting and Management Information System ("ARMIS") reports. Such certification statement declares that an officer of the BOC has examined the submission and that to the best of the officer's knowledge all statements of fact contained in the submission are true and the submission is an accurate statement of the affairs of the BOC for the relevant period. (See CC Docket No. 96-150, Report and Order, para. 122)

- Section 272(b)(3) does not preclude an affiliate of the BOC, such as a service affiliate, or the parent company of both the BOC and its section 272 affiliates from performing functions for both the BOC and its section 272 affiliate. The affiliate transaction rules apply to transactions between the BOC and a nonregulated affiliate of the BOC, such as a service affiliate, and to transactions between the BOC and its parent company. Under the principle of "chain transactions," the affiliate transaction rules also apply to any transactions between the section 272 affiliate and a nonregulated affiliate of the BOC, such as a service affiliate, that ultimately result in an asset or service being provided to the BOC. (See CC Docket No. 96-150, Report and Order, para. 183)

- In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25% threshold has been satisfied. (See CC Docket No. 96-150, Report and Order, para. 137; CC Docket No. 00-199, Appendix F Section 32.27)

- Nondiscrimination requirements extend to any good, service, facility, or information that a BOC provides to its section 272 affiliate(s) with the exception of joint marketing, which is covered in section 272(g) of the Act. Unaffiliated entities must have equal opportunity to acquire any such good, service, facility, or information. In particular, if a BOC were to decide to transfer ownership of a unique facility, such as its Official Services network, to a section 272 affiliate, it must ensure that the section 272 affiliate and unaffiliated entities have an equal opportunity to obtain ownership of this facility. (See CC Docket No. 96-149, First Report and Order, para. 218)

- Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265; see also C.F.R. 61.45(d)(1)(v))

PROCEDURES

1. Describe in the report and document in the working papers the procedures used by the Qwest BOC to identify, track, respond, and take corrective action on competitors' complaints with respect to alleged violations of the section 272 requirements. Obtain from the Qwest BOC a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716; and any written complaints made to a state regulatory commission from competitors involving the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period (January 2, 2004 through January 1, 2006). The list should also include outstanding complaints from the prior engagement period, which had not been resolved during that period. The list should

group the complaints in the following categories:

- allegations of cross-subsidies (for Objectives V and VI);

- allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and review of documentation how many of these complaints were under investigation, how many complaints had been resolved, and in what time frame they had been resolved, if feasible, and disclose in the report. For those complaints that had been resolved, document and disclose in the report how those allegations were concluded and, if the complaint was upheld, inquire and document and disclose in the report what steps the company has taken to prevent those practices from recurring. For all complaints that were filed in the previous engagement period, but were still open as of January 2, 2004, determine by inquiry and review of documentation how many of these complaints were under investigation as of the end of the current engagement period, how many complaints have been resolved as of the end of the current engagement period (and in what time frame they had been resolved), and disclose results in the audit report. For those complaints that have been resolved, document and disclose in the report how those allegations were concluded, and if the complaint was upheld inquire and document and disclose in the report what steps the company has taken to prevent those practices from recurring.

Note: Although applicable to complaints pertaining to Objective V/VI, VII, VIII, IX and XI, this procedure appears only once and will be performed only once for Objectives V/VI, VII, VIII, IX and XI. Reporting of the results of this procedure in the final report should be found here under Objective V/VI, Procedure 1, and should include the results for each respective objective.

2. Obtain from the Qwest BOC and each section 272 affiliate current written procedures for transactions with affiliates. Compare these procedures with the FCC rules and regulations indicated as "standards" above. Note and describe any differences and disclose in the report.

3. Inquire and describe how the Qwest BOC and each section 272 affiliate disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transactions rules. For this purpose, describe in the report the type and frequency of training, if any, literature distributed, company's policy, and document the supervision received by employees responsible for affiliate transactions. Interview employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier to determine awareness of these rules. Disclose in the report whether these employees demonstrated knowledge of these rules.

4. a. Obtain a listing of all written agreements for services and for interLATA and exchange access facilities between the Qwest BOC and each section 272 affiliate which were in effect during the audit test period, January 2, 2004 through September 30, 2005. Note which agreements are still in effect. For those agreements no longer in effect, indicate the termination date; identify agreements terminated prematurely and document why and disclose in the report. Inquire and document and disclose in the report the provisioning of any non-tariffed service without a written agreement.

   b. Obtain a listing of all non-tariffed written agreements, amendments and addenda that became effective during the audit test period. For a statistically valid sample of such agreements, amendments and addenda, obtain (include in the practitioner's work papers) copies of written agreements, amendments and addenda.

5. Using the sample of the agreements, amendments and addenda obtained in procedure 4b, view each company's web site on the Internet and compare the prices and terms and conditions of services and assets shown on this site to the agreements provided in Procedure 4b above. Disclose in the report any instance where any item in the agreement does not agree with the corresponding item on the Internet. Using the same sample as above, obtain a list of the principal places of business (BOC headquarters) where these agreements are made available for public inspection. Using a judgmental sample of locations agreed to by the Joint Oversight Team, by physical inspection determine whether the same information is made available for public inspection at the principal place of business (BOC headquarters) of the Qwest BOC. Describe any differences and inquire why such differences exist and disclose in the report. If the company makes any claim of confidentiality for nondisclosure, obtain details. It should be noted that these transactions should be posted for public inspection within 10 days of their occurrence. Document in the working papers the dates when the sampled agreements, amendments and addenda were signed, and/or the dates when the services were first rendered

(whichever took place first) and the dates of posting on the Internet. Inquire and note in the report late postings and reasons when posting took place after 10 days of signing of agreement or provision of service (whichever took place first). Document in the working papers the procedures the company has in place for posting these transactions on a timely basis. The information provided on the Internet should be in sufficient detail to allow evaluation for compliance with accounting rules (see Docket No. 96-150, Report and Order, para. 122). For example, such disclosures should include a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions. For asset transfers, the disclosure should include the appropriate quantity and, if relevant, the quality of the transferred assets. For affiliate transactions involving services priced at fully distributed costs or estimated fair market value, the disclosure should include the number and type of personnel assigned to the project and the level of expertise of such personnel (including the associated rate per service unit (e.g. contacts, hours, days, etc)). Service transactions should also disclose any special equipment used to provide the service, and the length of time required to complete the transaction. Additionally, the disclosure should state whether the hourly rate is a fully-loaded rate, and whether or not that rate includes the cost of materials and all direct or indirect miscellaneous and overhead costs for goods and services provided at Fully Distributed Cost. If the information disclosed on the Internet is not sufficiently detailed as described above, document and describe in the report the total number of agreements that were observed with insufficient detail, and the particular item(s) not sufficiently detailed. Inquire of management and document in the report why such differences exist. (See Docket No. 98-121, In the Matter of Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; Memorandum Opinion and Order; Released October 13, 1998, para. 337.) Obtain copies of these public postings and include in the working papers.

6. Obtain a listing with amounts of all nontariffed services rendered by Qwest Corporation to each section 272 affiliate, by month, during the audit test period, January 2, 2004 through September 30, 2005. Determine which of these services are made available to each section 272 affiliate and not made available to third parties, and which services are made available to both a section 272 affiliate and to third parties.

   a. From the services not made available to third parties:

      1. Determine the 10 services with the highest billing volume in dollars over the audit test period (including all BOC/ILECs and all states) that were billed to the section 272 affiliates (including all section 272 affiliates). Randomly select three individual non-consecutive months during the audit test period. For each month selected, obtain the billing records for all states, all BOC/ILECs, for the 10 "highest billing volume" services previously identified. Billing records should

reflect the billing to all section 272 affiliates. For each "highest billing volume" service, randomly select 10 billing transactions (a billing transaction is equivalent to a single billed item) from the three months of billing records. (If there are fewer than 10 services not made available by BOC/ILECs to third parties, continue selecting billing transactions until a statistically valid sample size is selected from the billing records. For each transaction, determine compliance with section 32.27 of the Commission's Rules. Compare unit charges to Fully Distributed Cost (FDC) or Fair Market Value (FMV) as appropriate. When differences exist between the amount recorded as revenue by the BOC/ILEC, the amount billed by the BOC/ILEC, and the amount to be charged in accordance with the affiliate transaction rules, note in the report the number of instances and related amounts, and, after inquiry, document in the report the reasons for these occurrences.

2. For the sample of billing transactions selected in step 1, test each transaction for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. Also test that the billed amount was paid by the section 272 affiliate. For this purpose, inspect the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. When any differences exist, note in the report the number of instances and the amount by which each item is different than the amount required by the rules and, after inquiry, the reasons for these occurrences. Also test that the transaction (and the same amount) was properly recorded as expense by the section 272 affiliate, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts unless those differences are attributable to the consolidation of transactions or invoices. If transactions are consolidated for the amounts paid and/or recorded, ensure that the transactions selected are included in the consolidated total.

b. From the services made available to both section 272 affiliates and to third parties:

1. Determine the 10 services with the highest billing volume in dollars over the audit test period (including all BOC/ILECs and all states) that were billed to the section 272 affiliates (including all section 272 affiliates).

2. Randomly select three individual non-consecutive months during the audit test period. For each month selected, obtain the billing records for the 10 "highest billing volume" services identified in step 1. Billing records should be for all BOC/ILECs, all states, and reflect billing to all section 272 affiliates. For each "highest billing volume" service, randomly select 10 billing transactions (a billing transaction is equivalent to a single billed item) from the three months of billing records. For each billing transaction selected, test each transaction for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, that the billed amount was paid by the section 272 affiliate, and that the payment was recorded by the BOC/ILEC. For this purpose, inspect the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Determine if the transaction billed to the section 272 affiliate complies with section 32.27 of the Commission's Rules. When differences exist, note in the report the number of instances and the amount by which each item is less than the amount required by the rules and, after inquiry, the reasons for these occurrences. Also test that the transaction (and the same amount) was properly recorded as expense by the section 272 affiliate, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment of the bill by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts unless those differences are attributable to the consolidation of transactions or invoices. If transactions are consolidated for the amounts paid and/or recorded, ensure that the transactions selected are included in the consolidated total.

7. Using the listing obtained in Procedure 6 of services rendered by month by the Qwest BOC to each section 272 affiliate during the audit test period, determine if any of the services rendered include operating, maintenance, or installation (OI&M) functions.

a. Disclose in the report whether the Qwest BOC is rendering any OI&M services to each section 272 affiliate, and the date any such provision of service started. Disclose in the report whether any such OI&M services are or are not made available to third parties.

b. If the Qwest BOC renders OI&M services to any section 272 affiliate, determine the following and disclose in the report:

- date affiliate agreement was effective (date signed);
- date affiliate agreement was posted to the Internet;
- date the Qwest BOC filed its Cost Allocation Manual (CAM) amendments

with the FCC, and the effective date of those CAM amendments.

8. Obtain a listing of all services rendered by month by each section 272 affiliate to each BOC/ILEC during the audit test period.

a. Determine the 10 services with the highest billing volume in dollars over the audit test period (including all BOC/ILECs and all states) that were billed by the section 272 affiliates (include all section 272 affiliates) to the BOC/ILECs. Randomly select three individual non-consecutive months during the audit test period. For each month selected, obtain the billing records for the 10 "highest billing volume" services previously identified. Billing records should be for all BOC/ILECs, all states, and reflect billing from all section 272 affiliates. For each "highest billing volume" service, randomly select 10 billing transactions (a billing transaction is equivalent to a single billed item) from the three months of billing records. For each transaction, determine whether the amounts recorded for the purchase of the sampled services in the books of the BOC/ILEC are in accordance with the affiliate transactions rules of the Commission (section 32.27). Compare unit charges to Fully Distributed Cost (FDC), Fair Market Value (FMV), or prevailing market price (PMP) as appropriate; also check for any "chain" transactions. Chaining may occur when a section 272 affiliate provides an asset or service to a BOC/ILEC that was originally obtained from another nonregulated affiliate, including if the section 272 affiliate obtained a product or service that was used to create the asset or service being provided to the BOC/ILEC. In such chain transactions, the section 272 affiliate must charge the lower of FDC or FMV of the original nonregulated affiliate unless there is a prevailing market price. The costs recorded by the BOC/ILEC must reflect the actual costs the originating affiliate incurred in creating the asset or providing the service unless the originating affiliate had established a prevailing market price.[6] When differences exist, note in the report the number of instances and the amount by which each item is different from the amount required by the rules and, after inquiry, the reasons for these occurrences. Also disclose in the report the differences between the amount the BOC/ILEC has recorded as expense for the transaction in its books of account, and the amount the BOC/ILEC has paid for the transaction to the section 272 affiliate.

b. For the sample of billing transactions selected in step a, test that the transaction was properly recorded as revenue by the section 272 affiliate, and that the billed amount was paid by the BOC. For this purpose, inspect the Accounts Receivable record of the

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[6] See In the Matter of NYNEX Telephone Companies' Permanent Cost Allocation Manual for the Separation of Regulated and Nonregulated Costs, AAD 7-1678, Memorandum Opinion and Order, Released October 11, 1988, paragraphs 23-25; see also In the Matter of Implementation of the Telecommunications Act of 1996; CC Docket No. 96-150, Accounting Safeguards Under the Telecommunications Act of 1996, Report and Order, Released December 24, 1996, footnote 376.

section 272 affiliate (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording of the billing of the service by the section 272 affiliate, and each instance where the payment of the bill was not properly recorded, or not recorded unless those differences are attributable to the consolidation of transactions or invoices. If transactions are consolidated within the amounts paid and/or recorded, insure that the transactions selected are included in the consolidated total.

9. Using the balance sheet information and the detailed listing obtained in Procedure 6 under Objective I, for items added since January 2, 2004, perform the following steps:

   a. For those items purchased or transferred from the Qwest BOC obtain net book cost and fair market value. Inquire and document in the report how the fair market value was determined. Inspect these transactions to determine whether they were recorded in the books of the Qwest BOC at the higher of FMV or net book cost, as required by the Commission's rules in section 32.27, and disclose in the report.

   b. For those items purchased or transferred from another affiliate, identify and document in the report whether they were originally transferred from the Qwest BOC to other affiliates.

   c. For those items purchased or transferred from the Qwest BOC, either directly or through another affiliate, since January 2, 2004, inquire and obtain details of how the Qwest BOC provided equal opportunity for unaffiliated entities to obtain ownership of them. Disclose the results in the report. Describe and disclose in the report how and upon what basis the Qwest BOC decided to transfer/sell the facilities to a section 272 affiliate instead of an unaffiliated entity.

10. Obtain as of the end of the audit test period a detailed listing of all fixed assets which were purchased or transferred from each section 272 affiliate to the Qwest BOC since January 2, 2004. This detailed listing should include a full description of each item, location, date of purchase, price paid and recorded, and from whom purchased or transferred. For those items purchased or transferred from a section 272 affiliate, obtain net book cost and fair market value. Also determine if these items were originally transferred to the section 272 affiliate from some other affiliate (BOC or other), or purchased originally by the section 272 affiliate. Inspect these transactions to determine whether they were recorded in the books of the Qwest BOC at the lower of FMV or net book cost, as required by the Commission's rules in section 32.27. Disclose results of this inspection in the audit report.

11. Select a statistically valid sample of assets and/or services priced pursuant to section 252(e) (e.g., as approved by the regulatory commissions) or statements of generally available terms pursuant to section 252(f). Compare the price the Qwest BOC charges the section 272 affiliate with the price stated in the publicly filed agreements or statements. Document any differences in the report.

12. Inquire and obtain details as to whether any part of the Qwest BOC's Official Services network was transferred or sold to a section 272 affiliate since January 2, 2004. In addition to the requirements for Procedure 9, for any transfer or sale of Official Services network assets on or after January 2, 2004, inquire and obtain details as to how the Qwest BOC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis the Qwest BOC decided to transfer/sell the facilities to a section 272 affiliate instead of an unaffiliated entity. Disclose all of the above facts in the report.

Procedures for Nondiscrimination Requirements

<u>OBJECTIVE VII</u>. Determine whether or not the Bell operating company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

<u>STANDARDS</u>

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, establishes some non-discriminatory rules and regulations. These rules and regulations do not permit a Bell operating company (BOC) to discriminate in the following manner:

- by giving preference to a section 272 affiliate's equipment in the procurement process. (See First Report and Order, para. 16)

- in awarding contracts for telecommunications equipment directly to their affiliate in a manner that violates section 273(e)(1) or 273(e)(2). (See First Report and Order, para. 234)

- by failing to provide advance information about network changes to its competitors. (See First Report and Order, para. 16)

- by not offering third parties the same goods, services, facilities and information (excludes customer proprietary network information (CPNI) and joint marketing) that it provides to its section 272 affiliate at the same rates, terms, and conditions. (See First Report and Order, para. 202 and 218)

NOTES:

(i) BOCs are not required under the nondiscrimination rules and regulations to provide to third parties Customer Proprietary Network Information (CPNI) that is shared with affiliates (see *Second Report and Order*, CC Docket No. 96-115, Released February 26, 1998, para. 169). The provision of "information" referenced in the nondiscriminatory rules and regulations excludes CPNI. CPNI is defined in section 222(f)(1) of the Act and includes information that is personal to customers as well as commercially valuable to carriers, such as to whom, where and when a customer places a call, as well as the types of service offerings to which the customer subscribes and the extent the service is used.

(ii) BOCs are allowed to jointly market and sell affiliate-provided interLATA services without offering comparable joint marketing opportunities to other providers of interLATA services (see section 272(g)(2) of the Act, and CC Docket No. 96-149, First Report and Order, Paragraphs 291-292). However, if BOCs market or sell their telephone exchange services through joint marketing conducted by the section 272 affiliate, then the BOCs must also permit third parties to market and sell its telephone exchange services (see section 272(g)(1) of the Act).

- in establishing or adopting any standards that favor its section 272 affiliate(s) over third parties. (See First Report and Order, para. 208 and 229)

- in developing new services solely for its section 272 affiliate(s). (See First Report and Order, para. 210)

- in purposely delaying the implementation of an innovative new service by denying a competitor's reasonable request for interstate exchange access until its section 272 affiliate was ready to provide competing service. (See First Report and Order, para. 211)

- in marketing its affiliate's interLATA services to inbound callers without informing them of their right to select the interLATA carrier of their choice. (See First Report and Order, para. 292)

NOTE:

A BOC's obligation to inform callers of their long distance choices is limited to customers who order *new* local exchange *service*. A caller orders "new service" when the customer either receives service from the BOC for the first time, or moves to another location within the BOC's in-region territory. (*See In the Matter of AT&T Corp., Complainant, v. New York Telephone Company, d/b/a Bell Atlantic – New York, Defendant*, Memorandum Opinion and Order, File No. EB-00-MD-011; FCC 00-362; at ¶¶ 13-15.)

In addition, a section 272 affiliate may not market or sell information services and BOC telephone exchange services together, unless the BOC permits other information service providers to market and sell telephone exchange services. (See First Report and Order, para. 287)

PROCEDURES

1. Obtain the Qwest BOC's written procurement procedures, practices, and policies. Review these policies for any stated purchasing preferences, and disclose in the report. Also disclose in the report the bidding and selection processes of the Qwest BOC, and how the Qwest BOC disseminates requests for proposals (RFPs) to affiliates and third parties.

2. Obtain and inspect the Qwest BOC's procurement awards to each section 272 affiliate during the audit test period, January 2, 2004 through September 30, 2005, and inspect bids submitted by each section 272 affiliate and third party. Note terms, and discuss with Qwest BOC representatives how the selection was made and disclose in the report. Compare this practice with the Qwest BOC written procurement procedures and note any differences. Disclose in the report all instances of procurement awards given to the section 272 affiliates where the terms of bids submitted by third parties were more favorable than those submitted by the section 272 affiliates. For these awards, disclose in the report all differences between the terms of bids submitted by the section 272 affiliates and the terms of bids submitted by third parties.

3. Obtain a list of all goods (including software), services, facilities, and customer network services information [excluding CPNI as defined in section 222(f)(1) of the Act, exchange access services and facilities (inspected in Objective IX), and interLATA services (inspected in Objective XI)] made available at any time during the engagement period to each section 272 affiliate by the Qwest BOC. For a statistically valid sample of items from this list, obtain and inspect copies of the media used by the Qwest BOC to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions. Disclose in the report the results of this procedure.

4. a. Obtain a list of all goods (including software), services, facilities, and customer network services information (excludes CPNI) that were purchased during the audit test period from the BOC/ILEC(s) by both an unaffiliated entity and any section 272 affiliate in any state. (NOTE: This list should exclude exchange access services and interLATA services that are the subject of other procedures.) If any, describe in the audit report what goods, services, facilities, and customer network services information were purchased and the dollar value of purchases made. Determine the 10 goods/services billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). For each service (services should be identified as discretely as possible) selected, determine the billing system(s) used by each BOC/ILEC to bill the service, and disclose in the report whether the same system(s) is used for the billing of both the section 272 affiliates and

unaffiliated third parties.

1. For each service selected, obtain the billing system rate tables, including any applicable discounts, surcharges, late fees, etc., used to bill the selected service to the section 272 affiliates. Determine if the rate tables in place reflect the current tariff or agreement rates, and disclose in the audit report. Inquire and document the BOC/ILECs' procedures for updating the rate tables for the audit test period.

2. For each billing system identified that is used to bill section 272 affiliates, document in the workpapers the practices and processes the BOC/ILEC has in place to ensure the billing system bills the section 272 affiliate and nonaffiliates at the same rates and under the same terms and conditions. Document in the audit report the BOC/ILEC's internal controls and procedures designed to ensure non-discriminatory billing. Include in the description of internal controls a summary of controls in place for overseeing the system, e.g., who has access to the systems to examine bills for accuracy, who authorizes changes if there is an error, and who has control and access over changing the rate tables (or the equivalent mechanized/system controls). Include in the audit report a discussion that outlines in summary format what each billing system is, what services are billed under that system, what controls are present for each system, and whether the controls apply equally to both the section 272 affiliate and nonaffiliates. Also include a summary of the controls that the BOC/ILEC(s) has in place for recording billed amounts as revenue, and the controls in place for recognizing and recording when the billed amount is actually paid. For each control identified, document how these controls exist and apply equally to both the section 272 affiliate and nonaffiliates.

b. Randomly select three individual non-consecutive months during the audit test period. For each month selected, obtain the billing records for the 10 "highest billing volume" services identified in step a. above that were billed to section 272 affiliates. Billing records should be for all BOC/ILECs, all states. For each "highest billing volume" service, randomly select 10 billing transactions (a billing transaction is equivalent to a single billed item) from the three months of billing records. For each billing transaction selected, test each transaction for the proper application of the rate tables in effect at that time, including all applicable discounts, surcharges, late fees, etc. If historic rate tables are not available, perform the test with the current rate tables obtained in step a above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount calculated to be billed is calculated using the method in the tariff or agreement. For the services selected, test that the rates listed on the rate tables used to bill the section 272 affiliates are equal to or greater than the rates listed on the rate tables used for nonaffiliates. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, and that the billed amount was paid. For this purpose, inspect the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid.

Obtain copies of all relevant screens/summaries for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording of the billing by the BOC/ILEC of the service to the section 272 affiliate, and each instance where the payment of the bill was not properly recorded, or not recorded. Also test that the transaction (and the same amount) was properly recorded as expense by the section 272 affiliate, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts unless those differences are attributable to the consolidation of transactions or invoices. If transactions are consolidated within the amounts paid and/or recorded, insure that the transactions selected are included in the consolidated total.

c. For each billing system that is used by the BOC/ILEC(s) to bill unaffiliated entities that is different than a billing system used to bill the same service to a section 272 affiliate, perform the procedures listed in steps a.1. and a.2. above. For each "highest billing volume" service identified in step A, compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service (in this system to bill unaffiliated entities) to the comparable rate charged in the system used to bill the service to a section 272 affiliate. Disclose in the report any differences. Disclose the results of all the billing system testing, outlined above, in the audit report.

d. Using the same randomly selected three individual non-consecutive months identified in step b, obtain the billing records from each billing system tested in step c (each system used to bill nonaffiliated entities that is different than the system used to bill the same service to section 272 affiliates), for the 10 "highest billing volume" services identified in step a that were billed to unaffiliated entities. Billing records should be for all BOC/ILECs, all states. For each "highest billing volume" service, randomly select 10 billing transactions (a billing transaction is equivalent to a single billed item) from the three months of billing records. For each billing transaction selected, test each transaction for the proper application of the rate tables tested in step c above, including all applicable discounts, surcharges, late fees, etc. If historic rate tables are not available, perform the test with the current rate tables obtained in step a above, including all applicable discounts, surcharges, late fees, etc. Determine if the amount calculated to be billed is calculated using the method in the agreement, and disclose in the audit report. For the services selected, test that the rates listed on the rate tables used to bill the section 272 affiliates are equal to or greater than the rates listed on the rate tables used for nonaffiliates. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, and that the billed amount was paid. For this purpose, inspect the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording by the BOC/ILEC of the billing of the service to the nonaffiliate, and each instance where the payment of the bill was not properly recorded, or not recorded unless those differences are attributable to the consolidation of transactions or invoices. If transactions are consolidated within the amounts paid and/or recorded, insure that the transactions selected are included in the consolidated total.

5. Document and disclose in the report how the Qwest BOC disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to each section 272 affiliate and to unaffiliated entities. Note any differences in the report.

6. At the customer service call centers observed in procedure 7 below, obtain and inspect scripts that the Qwest BOC's customer service representatives recite to new customers calling, or visiting customer service centers, to establish new local telephone service or to move an existing local telephone service to another location within the Qwest BOC in-region territory. If these scripts contain language to attempt to sell interLATA services, note and disclose in the report whether these scripts inform the consumers that there are other providers of interLATA services besides the section 272 affiliates and that these providers if requested, are identified to the consumers. In addition, obtain and inspect the written content of the Qwest BOC website for on-line ordering of new service or to move an existing local telephone service; note and disclose in the report whether the consumers are informed that there are other providers of interLATA services and that these providers, along with the interLATA service affiliates, are identified to the consumers.

7. Obtain a complete listing, as of June 30, 2005, of all Qwest BOC call centers.

    a. From the listing, compile a list of Qwest BOC call centers responding to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. From this listing, identify and group each call center by type of customer, i.e., Consumer or Business (both small business and large business). If the number of total call centers is less than ten (10), visit all call centers and listen in to 100 calls in total (equally divided among all call centers) in which the customer service representatives attempt to market the section 272 affiliate's interLATA service to callers requesting to establish new local telephone service or to move an existing local telephone service. If the number of call centers is greater than ten, use a random number generator, and select ten consumer and business call centers making sure a foreign language call center is included and listen in to an average of 10 calls at each center (100 in total) in which the customer service representatives attempt to market the section 272 affiliate's interLATA service to callers requesting to establish new local telephone service or to move an existing local telephone service. Labor union concurrence may be needed for this procedure. Note messages conveyed while listening in, including clarity of message delivered. Note and disclose in the report any instances where the customer service representative steered the caller to obtain the interLATA services of the section 272 affiliate, did not inform the caller of the availability of other providers of interLATA services, or did not inform the caller of his or her right to select the interLATA services provider. If any new call centers responding to inbound callers requesting to establish new local telephone service, or to move an existing local telephone service to another location within the Qwest BOC in-region territory, become operational between June 30, 2005 and the end of the audit test period, visit that center and repeat step a using 10 calls from that new call center.

b. From the listing, compile a list of call centers that might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service (such as sales and service centers that usually receive customer inquiries from existing customers). Using a random number generator, select three such Consumer call centers and two Business call centers, and listen in to 20 calls per center. Labor union concurrence may be needed for this procedure. If any customer requests to establish new local telephone service or to move an existing local telephone service, the practitioner should contact the Oversight Team before proceeding, unless the Qwest BOC customer service representative immediately refers the caller to the appropriate Qwest BOC customer service center.

c. For Consumer on-line ordering of long distance service from the Internet, access the on-line ordering site. Walk through the steps a customer must take to order long distance service from the section 272 affiliates. In particular, observe if the customer is informed of the right to select the interLATA services provider of his/her choice, and of the existence and/or list of other interLATA service providers. Describe in the audit report what the on-line ordering steps are, and whether the process informs the customer of his or her right to choose any interLATA services provider and provides the customer a list of such choices. Perform the same procedures for Business customers, if applicable.

8. Obtain a listing of all inbound call centers as of June 30, 2005, in which representatives of third-party contractors of the Qwest BOC respond or might incidentally respond to customers requesting to establish new local telephone service or to move existing local telephone service. In consultation with the JOT, select four call centers. Listen in to 25 calls per call center. If any customer requests to establish new local telephone service or to move an existing local telephone service, the practitioner should contact the Oversight Team before proceeding, unless the third-party contractor representative immediately refers the caller to a Qwest BOC customer service center. If any new inbound call centers in which representatives of third-party contractors of the Qwest BOC respond to

customers requesting to establish new local telephone service, or to move an existing local telephone service to another location within the Qwest BOC in-region territory, become operational between June 30, 2005 and the end of the audit test period, visit that center and listen to 25 calls from that new call center.

9. Identify the controls utilized by the Qwest BOCs and the third party contractors hired for inbound telemarketing for the establishment of new local telephone service or to move existing local telephone service to assure compliance by Qwest BOCs with section 272. Compare Qwest BOC controls with third party contractor controls and document differences in the audit report. Describe all controls in the report.

10. Obtain and review each of the contracts between Qwest BOCs and third party contractors that provide inbound telemarketing for the establishment of new local telephone service or to move existing local telephone service. Document in the audit report all controls contained in the contracts relating to section 272.

OBJECTIVE VIII. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

STANDARDS

Although the FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, reached various conclusions, further proceedings in this matter, currently underway, will provide the implementing rules and regulations. We will revise these procedures to conform to the new rules and regulations when adopted by the FCC, and to the extent in effect during the engagement period. The conclusions reached by the Commission provide that,

- for equivalent requests the response time a BOC provides to unaffiliated entities should be no greater than the response time it provides to itself or its affiliate. (See First Report and Order, para. 240)

- a BOC must make available to unaffiliated entities information regarding the service intervals in which the BOC provides service to itself or its affiliates. (See First Report and Order, para. 242)

- a BOC must not provide a lower quality service to competing interLATA service providers than the service it provides to its section 272 affiliate at a given price. (See First Report and Order, para. 16)

In its section 271 applications, QCII made commitments regarding compliance with section 272(e)(1) of the Act. This included the commitment to provide the performance monitoring that will assist in confirmation of nondiscriminatory performance in Qwest Corporation's dealings with its section 272 affiliates. If the Commission adopts reporting requirements, the Qwest BOC will fully comply.

PROCEDURES

1. Document in the working papers the practices and processes the Qwest BOC has in place to fulfill requests for telephone exchange service and exchange access service for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates in each state where the Qwest BOC has been authorized to provide in-region interLATA services. If the section 272 affiliates, or the BOC or other BOC affiliates, are treated differently than nonaffiliates, note and describe all differences in the report. Describe in the report the Qwest BOC's internal controls and procedures designed to implement its duty to provide nondiscriminatory service.

2. For each state where the Qwest BOC has been authorized to provide in-region interLATA services, document in the working papers the processes and procedures followed by the Qwest BOC to provide information regarding the availability of facilities used in the provision of special access service to its section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. Note any differences in the report. Inquire of management whether any employees of the section 272 affiliates, or the BOC or other BOC affiliates, have access to, or have obtained information regarding, special access facilities availability in a manner different from the manner made available to nonaffiliates (e.g., direct calls, placed prior to ordering, from the section 272 affiliates or BOC account managers to employees who may have facilities availability information). Disclose in the report any such instances.

3. For each state where the Qwest BOC has been authorized to provide in-region interLATA services, obtain written methodology that the Qwest BOC follows to document time intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), provisioning of service, and performing repair and maintenance services described in Procedure 4 below. Obtain this information for the section 272 affiliates and for the BOC and other BOC affiliates. Briefly describe this methodology in the report. If the company does not have any written procedures inquire and document why in the report.

4 For each state where Qwest has been authorized to provide in-region interLATA services, obtain, and include as an attachment to the report, performance data and related volumes maintained by the Qwest BOC/ILEC during the engagement period, by month. Indicate time intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), provisioning of service, and performing repair and maintenance services for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates, as separate groups, for the following services:

- Telephone exchange service, if any of the separate groups resells local service or intraLATA toll service. This does not include the selling of BOC local service or intraLATA toll service to retail customers.

- Exchange access services as provided through an ASR for DSO, DS1, DS3, feature group D, and OCn, as individual groups; for the BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis, and services provided to affiliates on a wholesale basis.

- Unbundled network elements, if the section 272 affiliates purchase unbundled network elements.

- Presubscribed Interexchange Carrier (PIC) change orders for intraLATA toll services and interLATA services.

The table below should be used as guidance for the information to be included in the metrics. If no performance measures are applicable for both the "section 272 affiliates" and the "BOC and other BOC affiliates" groups, performance metrics for nonaffiliates are not required. When reporting performance measures for the "nonaffiliates" group, only performance measures for the services purchased by the "section 272 affiliates" and/or the "BOC and other BOC affiliates" need be reported. For each group (section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates) and each service category (telephone exchange service, exchange access service, UNEs, and PIC change orders) combination in the table below for which the Qwest BOC/ILEC makes a claim of "not applicable", the practitioner must confirm independently that there are no such measurements to be reported, or get a representation letter from management as to why such measurements do not need to be reported in this engagement.

SUMMARY OF COMPANY TYPE AND SERVICE TYPES FOR PERFORMANCE MEASUREMENT REPORTING

Company Type	Telephone Exchange Service	Exchange Access Service (ASRs Only)	UNEs	PIC Change Orders (both interLATA and intraLATA PIC changes)
272 Affiliate	Included - if the 272 affiliate resells local service or intraLATA toll service	Included	Included if applicable	Included
Other Affiliates, Including the BOC(s)	Included - to measure services provided on a **Resale** basis	Included - to measure services provided to end users on a **Retail** basis, and **Wholesale** services provided to affiliates	Included if any section 272 affiliate purchases UNEs from the BOC	Included if applicable
Nonaffiliates (includes all entities purchasing services for resale or on a wholesale basis)	Included - to measure services provided on a **Resale** basis	Included	Included if any section 272 affiliate purchases UNEs from the BOC	Included

The performance measures should include the requested performance data by month, including related parity scores, for each state beginning January 1, 2004 and ending on December 31, 2005 (the twenty-fourth full month for which performance data is available). Where appropriate, the performance measures data shall reflect the standard deviation, as well as mean. For purposes of inclusion in the audit report, the practitioner should obtain all restatements of any performance data, and include in the report the latest restatement.

For each of the above service categories, the measurements shall be those that Qwest has committed to maintain in each section 271 application to prove compliance with these nondiscriminatory requirements. The measurements are as follows:

a. Installation Commitments Met – Measures the percentage of orders for which the scheduled due date is met within the reporting period. The formula for this measurement is: Total orders completed in the reporting period on or before the

Applicable Due Date divided by total orders completed in the reporting period times 100. (Include number of installation orders.)

b. Average Installation Interval – Measures the average interval between the application date and the completion date for service orders accepted and implemented. The formula for this measurement is: Order Completion Date minus Order Application Date less the time interval between the Original Due Date and the Applicable Due Date less the time intervals associated with customer-initiated due date changes or delays occurring after the Applicable Due Date divided by the total number of orders completed in the reporting period. The Applicable Due Date is the Original Due Date or, if changed or delayed by the customer, the most recently revised due date. (Include number of service orders.)

c. Firm Order Confirmations (FOCs) On Time – Measures the percentage of Firm Order Confirmations (FOCs) that are provided within the intervals as specified in the Standard Interval Guide (http://www.qwest.com/wholesale/guides/sig/index.html). The formula for this measurement is: Count of ASRs for which the original FOC (FOC Notification Date & Time) minus application date & time is within the intervals specified divided by total number of original FOC Notifications transmitted in the reporting period times 100. (Include number of ASRs.)

d. % PIC Change Requests Met (processed within 24 hours) – Measures the percentage of IXC initiated PIC change requests completed within 24 hours. The formula for this measurement is: Total IXC initiated PIC change requests, received before 10 P.M. Mountain Time and completed by 10 P.M. Mountain Time on the next business day, divided by the total number of IXC initiated PIC change requests completed in the measurement period times 100. (Include number of IXC initiated PIC change requests.)

e. All Troubles Cleared within 4 hours – Measures the percentage of trouble reports that are cleared within 4 hours of receipt of trouble reports. The formula for this measurement is: Total trouble reports closed in the reporting period that are cleared within 4 hours divided by total trouble reports closed in the reporting period times 100. (Include number of trouble reports.)

f. Mean Time to Restore – Measures the time actually taken to clear trouble reports from date and time of receipt to date and time trouble is cleared. The formula for this measurement is: Date and time trouble report cleared minus date and time trouble report opened divided by total number of trouble reports closed in the reporting period. (Include number of trouble reports.)

g. Trouble Rate – Measures the overall rate of trouble reports compared to the number of lines in service. The formula for the measurement is: Total number of trouble reports closed in the reporting period divided by total number of circuits in service in the reporting period times 100. (Include number of trouble reports.)

Note and disclose in the report differences in time in fulfilling each type of request for the same services from the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. For any statistically significant differences (out of parity), elicit explanations from Qwest where fulfillment of requests from nonaffiliates took longer than for either their own section 272 affiliates or the BOC or other BOC affiliates. Provide in the report a linear graph for each state, for each performance measure, for each service, over the entire engagement period, depicting the performance for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates.

If the requested performance data is not available in the manner described in this procedure (by month, by company type, by services) for the entire engagement period inquire and disclose in the audit report the period and description of the PMs that are lacking and the reasons why.

5. Using the reported data (i.e., by state, by service, by performance measure, by month) in Procedure 4 above, randomly select three months during the engagement period. For each section 272(e) performance metric, for each state, and for each service category described above in Procedure 4, apply the business rules to the underlying data for the three months selected. Compare the results to those tracked and maintained by the Qwest BOC for that performance metric. Applying the business rules must include all stages of the performance metric including definitions, exclusions, calculations, and reporting structure. Document any differences in the report.

6. Determine by inquiry, first, and then by inspection, how and where the Qwest BOC makes available to unaffiliated entities information regarding performance results in providing any service to the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. Document the results in the report.